

Independent Auditor's Report

Continental Gateway Authority

Purcell, Oklahoma

Year Ending June 30, 2013

CONTINENTAL GATEWAY AUTHORITY

Purcell, Oklahoma

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Continental Gateway Authority
Purcell, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Continental Gateway Authority**, a component unit of McClain County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash bases of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

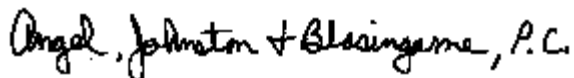
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of **Continental Gateway Authority** as of June 30, 2013, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an internal part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
November 25, 2013

CONTINENTAL GATEWAY AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2013

ASSETS

Current Assets

Cash and Cash Equivalents	\$	69,674.75
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<i>Total Current Assets</i>		69,674.75
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Fixed Assets

Land		1,982,708.80
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Equipment and Furniture		5,363.01
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<i>Total</i>		1,988,071.81
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Less Accumulated Depreciation		(4,913.60)
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<i>Total Fixed Assets</i>		1,983,158.21
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<i>Total Assets</i>		2,052,832.96
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LIABILITIES

<i>Total Current Liabilities</i>		0.00
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<i>Total Liabilities</i>		0.00
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NET POSITION

Invested in Capital Assets net of Related Debt		1,983,158.21
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Restricted		0.00
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Unrestricted		69,674.75
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<i>Total Net Position</i>	\$	2,052,832.96
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The accompanying notes are an integral part of the financial statements.

CONTINENTAL GATEWAY AUTHORITY
STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUE:

Land Leases	\$ 32,920.00
<i>Total Operating Revenue</i>	<u>32,920.00</u>

OPERATING EXPENSES:

Professional Services	2,350.00
Insurance	2,000.00
Office Supplies	38.40
Utilities	168.00
Miscellaneous	3.00
Depreciation Expense	<u>318.29</u>

<i>Total Operating Expenses</i>	<u>4,877.69</u>
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<i>Net Operating Income (Loss)</i>	28,042.31
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Total Non-Operating Revenue (Expense)	<u>0.00</u>
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<i>Net Income (Loss)</i>	<u>28,042.31</u>
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Net Assets-Beginning of Year	<u>2,024,790.65</u>
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Net Assets-End of Year	<u><u>\$ 2,052,832.96</u></u>
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The accompanying notes are an integral part of the financial statements.

CONTINENTAL GATEWAY AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Year Ended June 30, 2013

Cash flows from operating activities:

Cash received from leases	\$ 32,920.00
Cash received from other sources	0.00
Cash dispersed for professional services	(2,350.00)
Cash dispersed for suppliers	(2,209.40)
<i>Net Cash provided (used) by operating activities</i>	<u>28,360.60</u>

Cash flows from noncapital financing activities:

Transfers to other funds	0.00
Transfers from other funds	0.00
<i>Net Cash provided (used) by noncapital & related financing activities</i>	<u>0.00</u>

Cash flows from capital and related financing activities:

Purchase of capital assets	0.00
<i>Net Cash provided (used) by capital & related financing activities</i>	<u>0.00</u>

Cash flows from investing activities:

Interest income	0.00
<i>Net Cash provided (used) by investing activities</i>	<u>0.00</u>

Net Increase (Decrease) in cash and cash equivalents	28,360.60
Cash & Cash equivalents at beginning of year	<u>41,314.15</u>
Cash & Cash equivalents at end of year	<u><u>\$ 69,674.75</u></u>

Reconciliation of Operating Income (Loss) to Net Cash

Provided by Operating Activities:

Operating Income	\$ 28,042.31
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided	
Depreciation Expense	318.29
Net Cash Provided (used) by Operating Activities	<u><u>\$ 28,360.60</u></u>

The accompanying notes are an integral part of the financial statements.

CONTINENTAL GATEWAY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

1.A. Financial Reporting Entity

Continental Gateway Authority, McClain County, Oklahoma was established on April 21, 1997, pursuant to Title 60 of O.S. 1961, Section 176 to 180.3, inclusive. The purpose of this trust is to assist the Beneficiary, governmental agencies and private enterprises in the development of McClain County, Oklahoma, by participating to the greatest degree possible in promoting and encouraging the general economic and social development within McClain County. In accomplishing said purpose, the Trust may make financial inducements or take any other necessary action to attract and retain business and industry to the McClain County so long as such actions are consistent with state and federal statutes and constitutional limitations.

Related Organizations

McClain County – McClain County is the trust beneficiary and will receive all resident trust assets upon termination of the trust. The McClain County Commissioners are the Authority's Trustees. Therefore the Authority is considered to be a component unit of McClain County.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. Continental Gateway Authority is a component unit of the governmental Entity of McClain County, Oklahoma. McClain County's financial information is not presented in these financial statements. McClain County financial audits are readily obtainable at, www.sai.ok.gov, the State Auditor's website.

1.B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

CONTINENTAL GATEWAY AUTHORITY
PURCELL, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1.C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Authority's financial statements use the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. In other words, revenue would be recognized when earned and expenses would be recorded when the liability is incurred or economic asset used.

1.D. Assets, Liabilities and Net Position

Cash & Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents.

Notes Payable - Notes Payable to be repaid from the authority resources are reported as liabilities in the balance sheet. The Authority had no notes payable as of the balance sheet date.

Net Position – Net Position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

CONTINENTAL GATEWAY AUTHORITY
PURCELL, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1.E. Capital Assets

The Authority's capital assets are capitalized and stated at cost. Depreciation of exhaustible capital assets is recorded as an expense over the estimated useful lives using the straight-line method of depreciation.

The Range of estimated useful lives by type of asset is as follows:

Equipment & Furniture 5 – 10 years

The following is a summary of the capital assets as of June 30, 2013:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	Ending <u>Balance</u>
Land (not depreciable)	\$1,982,709	\$0	\$0	\$1,982,709
Equipment	5,363	0	0	5,363
Accumulated Deprec.	<u>(4,595)</u>	<u>(318)</u>	<u>0</u>	<u>(4,913)</u>
Total Capital Assets	<u>\$1,983,477</u>	<u>\$ (318)</u>	<u>\$ 0</u>	<u>\$1,983,159</u>

1.F. Revenues and Expenses

Operating and Nonoperating Revenues - Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and investing activities are reported as non-operating.

Expenses - The Authority reports expenses relating to the use of economic resources.

1. G. Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

Note 2 – Detailed Notes on Transaction Classes/Accounts

2.A. Cash and Investments

Deposits and Investments - The Authority does not have a written investment policy that limits its investment choices. Investments are in compliance with Oklahoma statutes.

CONTINENTAL GATEWAY AUTHORITY
PURCELL, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

2.A. Cash and Investments (continued)

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial risk. However, the Authority's balances did not exceed the \$250,000 FDIC insurance level during the fiscal year. Bank deposits on June 30, 2013 were \$69,674.75.

2.B. Restricted Assets

The Authority does not have any restricted assets.

Note 3 – Use of Estimates

The preparation of financial statements in conformity with modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Note 4 - Commitments and Contingencies.

The Authority is dependent upon grants and land leases to function for its intended purpose of economic and social promotion. The Authority must comply with the grant provisions or it will be responsible to refund the grant if unable to comply.

The Authority is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. While legal proceedings cannot be foreseen, the Authority feels that any settlement or judgment would not have a material effect on the financial condition of the Authority.

Note 5 – Related Party Transactions

The Authority has a five-year land lease contract for \$2,800 per annum with an annual renewal option. The land is leased to a board member's direct descendant. The contract was awarded to the high bidder in a closed bid process, and represents an arms length transaction. The lease began on December 1, 2012 and ends on November 30, 2013. The lease payment has been made up through the year ended, June 30, 2013.

***REPORT ON INTERNAL CONTROL
AND COMPLIANCE***

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Trustees of
Continental Gateway Authority
Purcell, Oklahoma

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of Continental Gateway Authority, a component unit of McClain County, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Continental Gateway Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a

material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 13-01.

Compliance and Other Matters

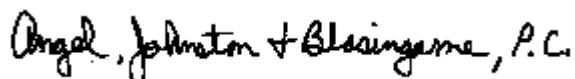
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Continental Gateway Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express not opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston and Blasingame, P.C.
Certified Public Accountants
Chickasha, Oklahoma
November 25, 2013

Continental Gateway Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2013

- 13-01 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity’s assets and ensure accurate financial reporting.

Condition – Presently the same individual performs all accounting functions; receives checks, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares financial summaries.

Cause – The Authority’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

Management response – Management agrees.